Volume 1, Number 12 *June 13, 2003*

INSIDE CONSUMER-DIRECTED CARE

News and Analysis of Benefit Design, Contracts, Market Strategies and Financial Results

Contents

2 Vivius Lands $5 Million in New Funding, Predicts Profit in '04

3 *Table*: A Look at CDH Plans Available From Large Insurers

4 The Future of CDH: Here's Where Our Panel Says the Movement Is Headed in 2004

5 IRS Clarifies HRA- and FSA-Covered Medical Expenses

6 Humana Pilots Prepaid Debit Cards In-house Plans, Client Use in '04

7 Definity Anticipates 300,000 Members, Profitability by January

8 *Industry News*

Setbacks Prompt HealthMarket to Cut Staff, Centralize Offices, Revamp Strategies

Recent coverage problems related to two of its largest clients have prompted Norwalk, Conn.-based CDH plan operator HealthMarket to close two small sales offices, reduce staff and limit its client base to the small-employer market.

Less than three months ago, Steve Wiggins — CEO and founder of HealthMarket — told *ICDC* that a $12.5 million infusion of venture capital financing would push his company to profitability by June or July (*ICDC 3/28/03, p. 1*). Recent legal wranglings with two union clients, however, have tempered that optimism and caused Wiggins to revamp the company's strategies and outlook.

"We did have some setbacks," admits Wiggins, who launched HealthMarket in 2000. "Our original break-even date was July, but that has been pushed back about three or four months."

Last month, HealthMarket closed sales offices in Chicago and Atlanta, which together had nine employees, and moved all operations to its Norwalk, Conn. headquarters. Staff cuts at the satellite offices — and at the company's headquarters — trimmed the company's roster by 18 to about 115, former employees say.

"My sense is that this is what happens in this industry. It's a competitive market, they are venture [capital] backed and they are tinkering to find out what works best," says Michael Taylor, a consultant in the Boston office of Towers Perrin. "I don't see this as a negative. They continue to show sales and are aggressive in the marketplace."

continued on p. 6

Lawmakers Call HSA Bill 'Victory' for CDH, Express Optimism About Passage Chances

A bill introduced in the House June 5 seeks to combine employer-funded health reimbursement arrangements (HRAs) with flexible spending accounts (FSAs), eliminate the use-it-or-lose-it-feature of FSAs and make the fund portable.

The proposed health savings accounts (HSAs) would be combined with high deductible "health policies" (PPOs) to pay for health-related goods and services. A key feature of the Health Savings Account Availability Act of 2003 (H.R. 2351) would allow employees to deposit up to $500 in leftover FSA funds into an HSA. Unlike HRAs, however, the HSA funds would stay with the employee upon termination of employment.

Congressman Jim DeMint (R-S.C.), a strong supporter of the bill, says the latest measure is modeled after the proposed Health Care Account Act of 2001, a bill he introduced in the last Congress.

DeMint tells *ICDC* he's optimistic that the new bill — or some form of it — will be passed by the current Congress.

This is "an opportunity to revolutionize the health care industry before it collapses into a national health care system," he says. "People are seeing that allowing funds to roll over solves a lot of problems."

continued

Managing Editor
Steve Davis
Editorial Assistant
Lauren Flynn
Executive Editor
James Gutman

Published by Atlantic Information Services, Inc., Washington, DC • 800-521-4323 • www.AISHealth.com
An independent publication not affiliated with insurers, vendors, consultants or associations

Although similar bills, such as DeMint's, have been introduced in the past, lawmakers and insurers are optimistic that the most recent effort will move forward in this Congress for a number of reasons, including:

(1) Chief sponsors: Ways and Means Committee Chairman Bill Thomas (R-Calif.), and William Lipinski (D-Ill.) introduced the bipartisan bill. "We have a chair of Ways and Means that has proven he can push things through," says DeMint. "I think the chances [of passage] are good."

(2) Support from health insurers: In a statement released the day after the bill's introduction, Donald Young, M.D., president of the Health Insurance Association of America, praised the legislation as a way to "put patients back in control of their own health care." Don Hamm, president and CEO of Milwaukee-based Fortis Health — a provider of medical savings accounts (MSAs) — adds that the proposed HSAs remove many of the barriers that "limited the use and effectiveness of MSAs." MSAs, which are similar to HRA-based CDH plans, are limited to small businesses and the self-employed.

(3) Portability: CDH plans that rely on HRAs have encountered some resistance from employees when they realized that the account never really belongs to them if they leave the company. "It stays with the employer," says HIAA spokesman Larry Akey.

Inside Consumer-Directed Care is published 24 times a year by Atlantic Information Services, Inc., 1100 17th Street, NW, Suite 300, Washington, D.C. 20036, 202-775-9008, www.AISHealth.com.

Managing Editor, Steve Davis; Editorial Assistant, Lauren Flynn; Executive Editor, James Gutman; Publisher, Richard Biehl; Marketing Director, Donna Lawton; Circulation Manager, Kristin Mulcahy; Production Director, Andrea Gudeon

Call Steve Davis at 1-800-521-4323 with story ideas for future issues of *ICDC*.

According to a statement from Thomas' office, "The Rand Corporation found that when individuals spend their own money on health care, they spend 30% less with no adverse health effects."

Other Key Features of H.R. 2351

If approved, the HSAs would:

◆ Be permanent and portable.

◆ Be available to all individuals with a qualified high-deductible plan.

◆ Be established in connection with a health insurance plan providing a minimum annual deductible of $1,000 (for single coverage), and not more than $2,250.

◆ Be established so that out-of-pocket expenses for covered benefits do not exceed $3,000 (for single coverage).

◆ Allow annual contributions to equal 100% of the deductible.

◆ Allow both employer and employee contributions.

◆ Be marketed by PPOs.

◆ Be offered by cafeteria plans.

◆ Be allowed to receive tax-free rollovers of up to $500 of unspent FSA balances.

◆ Not place a cap on account size.

The Next Step

The next step on the bill is a markup, but nothing is yet scheduled, and Congress has limited time to act, says a spokesperson for Thomas. "On the health care side of things, we are pretty swamped. But this bill does have potential to move, especially since it's a bipartisan bill."

"We now have to work with [Thomas] to "vet this bill and hope we have hearings on it," DeMint says. "I think we will be able to meet with employer groups and determine how it would work more effectively and eliminate some of the problems we had with MSAs."

For the complete text of the bill, visit the Ways and Means Committee's Web site at http://waysandmeans.house.gov. ✧

Vivius Lands $5 Million in New Funding, Predicts Profit in '04

Since May 2000, Minneapolis-based Vivius, Inc. has been operating on its initial $16 million in venture capital. This month, the company's six original investors added another $5 million to the CDH vendor's coffers.

Vivius' total funding is tiny when compared with capital raised by CDH vendors Definity Health ($64 million in two rounds of funding) and Lumenos ($76